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SUBJECT: EXPORTS, POPULISM AND OLD ALLIES: A TRIP TO PARANA

¶11. (SBU) SUMMARY. On a recent trip to the state of Parana just southwest of Sao Paulo, Consul General helped launch a Commerce Department initiative at the Port of Paranagua, which, according to Port officials and the state's governor, is being revitalized into a dynamic commercial sea link for southern Brazil. Local authorities, however, question the efficacy of the State's investments in the publicly-owned and operated port facilities, and lament the ramifications of the governor's three-year old ban on the transport of genetically modified organisms (GMO) through the state. The Consul General also met with business representatives and government officials in Parana's capital, Curitiba, a city respected worldwide for its visionary urban planning and mass transit system, and an apparent magnet for foreign investment. He also addressed the state's most important industrial association in conjunction with an event highlighting investment opportunities in the United States. In addition to business activities and press interviews, the Consul General toured a rainforest preservation project, a museum dedicated to the Brazilian soldiers who fought alongside U.S. troops in Italy during World War II, and a Brazil-U.S. bi-national center. END SUMMARY.

PORT OF PARANAGUA: NEW GATEWAY, OR WASTED OPPORTUNITY?

¶12. (U) Consul General (CG) recently made his first official visit to the state of Parana, which borders Sao Paulo state to the southwest. As part of the trip, the CG signed a Network with the United States of America (NUSA) cooperative agreement with Dr. Eduardo Requiao de Mello e Silva, the Superintendent of the Ports of Paranagua and Antonina, whereby information about business opportunities and partnerships between U.S. and Brazilian firms may be more readily exchanged. Designed and implemented by the U.S. Commercial Service (USCS), there are now 47 NUSA agreements in effect throughout Brazil.

¶13. (SBU) The Administration of the Ports of Paranagua and Antonina (APPA) boasts that the Port of Paranagua, now publicly owned and operated, is the largest solid bulk port in Latin America and dates back to 1872. The Parana State Government has invested \$75 million in the port in recent years, claiming that under previous

administrations, the port had faced "inefficiency, non-operation, and losses." Slick marketing materials are obviously aimed at international firms, including brochures and a promotional video done in English. The APPA promotes Paranagua as a modernized port that maximizes efficiencies such as 24/7 operations, new heavy-duty asphalt for the approach-road, and separate truck entrances and weighing facilities based on cargo type (dry bulk, wood, or refrigerated). The APPA claims the port is in a "rebound" phase, having experienced a 100 percent increase in truck traffic between 2004 and 2005, with 3,000 trucks bringing grain to port each day during peak harvest time.

¶4. (SBU) But a tour of the port showed modest improvements, such as new concrete and updated design features to better regulate vehicle-flow, while much of the touted renovation and expansion of the port is still under construction. Further, subsequent meetings with local officials suggested a more troubled side to the port's recent history. Paranagua Mayor Jose Baka Filho was a civil engineer specializing in port construction before he ran for public office. A member of the Democratic Labor Party (PDT), Baka Filho barely hides his disdain for and distrust of the state's governor, Roberto Requiao, of the Brazilian Democratic Movement Party (PMDB). According to Baka Filho, the port is being mismanaged due to general incompetence, and most of the improvements cited by the Port Superintendent and the governor -- who are brothers and part of a wider Requiao nepotism network -- were either begun under the previous administration or have yet to materialize. The Mayor admitted that "some new asphalt has been laid here and there," but he largely dismissed the cited expansion projects, like new workers' facilities and a new petroleum storage and transfer bunker, describing them as "paralyzed" by construction delays. He also said that a special tax assessed only on port communities -- rather than general state funds -- funded much of the recent work on the port, and that public tenders for many project never materialized.

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Furthermore, Mayor Baka Filho charged that Paranagua's economy has been severely weakened in recent years by a reduction in grain shipments leaving the port. He rallied the local business community to deliver the same message, and representatives of the Paranagua Association of Commerce, Industry and Agriculture (ACIAP) reiterated the mayor's charge that the local economy has suffered under the policies of the current state government.

¶5. (SBU) The drop in grain shipments from Paranagua is attributed to the governor's policies against genetically modified organisms (GMO). Parana Governor Roberto Requiao is a firebrand populist known for wearing blue jeans to formal events and for freely and vociferously expressing his left-leaning views. In 2003, he declared his state GMO-free. With the aid of his brother, the Port Superintendent, the Governor banned the transportation of GMO-commodities through his state, including exports leaving from the Port of Paranagua, the leading port for grain exports in Brazil at that time. Paranagua officials now complain bitterly that this policy has caused the volume of shipping to drop precipitously as growers from other states and from Paraguay adjusted to the transportation ban by sending their grain exports (mostly soy) to ports in the neighboring states of Santa Catarina and Sao Paulo. Since the ban took effect, the Port of Santos in Sao Paulo state has surpassed the Port of Paranagua as Brazil's leading export terminal for soybeans.

¶6. (SBU) Local government officials and businessmen of the small city argue that the diversion of grain trucks has led to reduced tax revenue for the port communities and increased unemployment among stevedores and unskilled laborers who work on the docks and at related industries. Business representatives said that 80 percent of the local economy is connected to the port, and when pressed, neither Paranagua's mayor nor its business leaders could marshal ideas for near-to-mid term alternative economic drivers. (NOTE: Governor Requiao recently signaled he will loosen his policy against the use and transport of GMO-enhanced grains in Parana, in part due to several court rulings declaring the ban illegal, and likely in part due to the economic consequences noted by his critics. It is also worth noting that Requiao must run in a second-round election race as a result of the October 1 nationwide elections. He received

38.9 percent of the votes cast, well shy of the majority required to secure a victory in the first round of elections under Brazilian law. His closest competitor, Osmar Dias of the PDT, received 35.08 percent, and the two will face off in second-round elections on October 29. END NOTE)

CURITIBA CONTINUES TO THRIVE

¶7. (U) Curitiba, the Parana state capital, is world renown as a model of urban planning and mass transportation. Unlike Sao Paulo, its sprawling neighbor to the east, Curitiba has a well-defined central downtown area that includes a pedestrian mall extending several blocks through the heart of a retail shopping, services and hotel district. Curitiba also managed to preserve more of the distinctive, Portuguese-influenced architecture represented by the colonial era homes that once belonged to the coffee barons and plantation owners of the region; today, restaurants, banks and real estate agents make their offices in the well-preserved structures. Central state and municipal government offices, including those of the governor and the mayor, are located in a compact government zone near the city center, and the city is zoned to reduce population density as neighborhoods develop farther from major transportation arteries. Curitiba also boasts several large and well-maintained parks with world-class cultural centers.

¶8. (U) Perhaps the most noteworthy characteristic of Curitiba is its mass transit system, called the Integrated Transportation Net. Realizing that a rail or subway system would be prohibitively expensive to construct late in the city's development, city planners in the 1970s and 80s instead built an extensive single-fare bus system that maximizes efficiency at every turn, including its now-famous elevated, tubular bus stops. Studied closely by urban planners around the globe, Curitiba's bus system has been used as a

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model for transportation systems in Bogota, Panama City and Los Angeles, among other cities.

¶9. (SBU) The Mayor of Curitiba, Carlos Alberto Richa, said that of the thousands of international visitors that contact his office each year, most are interested in studying the city's methods of managing environmental issues, transit, and urban planning. Mayor Richa added, however, that he is also trying to expand the city's image as a business center primed for international investment. Large international companies like Volkswagen, Volvo and Kraft Foods have substantial operations in the Curitiba environs, and the city's industrial zone looks like many suburban American business parks, with wide boulevards and well-trimmed lawns leading to corporate headquarters and modern factories. The mayor noted that HSBC Bank is considering a software project in Curitiba that would produce 4,000 jobs if realized. Mayor Richa, who is the Parana state coordinator for the Social Democratic Party of Brazil (PSDB) and a political rival of the state's governor, is also proud of his city's reputation as having the best quality schools and health care in Brazil. Anecdotal evidence supports the mayor's contention that Curitiba is poised to continue thriving in an environment rich in foreign investment: Europeans and Americans dominated the guest list of the hotel and conference center at which we stayed, and the owner of the transport service we hired told us, in English, that most of his clients are foreign executives (primarily Europeans but also Americans) shuttling between businesses and government offices.

BRAZILIAN EXECUTIVES MOVE UP IN MULTINATIONALS

¶10. (SBU) While in Curitiba, the CG attended a business lunch organized by corporate lawyer and long-time political insider Joao Casillo. Along with the colorful and storied state legislator Rafael Greca (PMDB), who was once mayor of Curitiba and later served as federal Minister of Sport and Tourism under President Fernando Henrique Cardoso, Casillo hosted executives from a dozen U.S.-based corporations doing business in the region, including American Axle and Manufacturing (AAM), Phillip Morris, and Becton, Dickinson and

Company. Casillo noted that only a few years ago the attendees of such a meeting would mostly be American expatriates filling executive-level jobs in Brazil. By contrast, at our meeting only two Americans were present in a room full of Brazilian-born managers and executives. Casillo and Greca attributed this trend to the fact that well-educated and motivated Brazilians have been climbing the corporate ladders of multinationals over the years and now, after having done well in management positions overseas, these officers are returning to the executive suites in Brazil in posts including Chief Financial Officer, Managing Director and Chief Executive Officer. The mood was good and optimistic among these businesspeople of Curitiba.

INDUSTRIAL VIEW ON GSP, CHAVEZ, AND GEORGIA

¶11. (SBU) Another highlight of the CG's trip to Parana was a speech on business opportunities in the United States delivered at the Federated Industries of Parana State (FIEP). FIEP is the most important industrial association of Parana, and it is based in an impressive, sprawling campus with several buildings housing offices, meeting rooms, teaching and training facilities, an auditorium and a helipad. The State of Georgia and PNC Bank of Pennsylvania sponsored the event to draw attention to opportunities for Brazilian and international businesses based in Parana to use cities like Atlanta and Savannah as gateways to U.S. markets. Some 100 businesspeople attended the session, which was covered by the press.

FIEP representatives inquired into whether the organization could reach a more formal agreement with the Commerce Department regarding direct ties between FIEP and the USG. Commercial Officer discussed options and a plan for follow-up meetings.

¶12. (SBU) In a private meeting with the CG, FIEP President Rodrigo da Rocha Loures said that Venezuelan President Hugo Chavez is politicizing the MERCOSUR economic block and attempting to win

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regional support through populist rhetoric and "paternal" spending. He noted, however, that "capitalism naturally counters paternalism" and the corruption that often accompanies it, and opined that Chavez' influence in South America will ultimately be limited. Rocha Loures, who founded the processed foods company Nutrimental with current operations throughout Brazil, also took pains to explain why Brazil still needs access to the General System of Preferences (GSP) soon to expire. He said he understands that the purpose of GSP benefits was to help developing countries achieve a competitive level of industrialization and sustainability on international markets, but he insisted that, with some 4 million young people unemployed without hope of finding good jobs and the twin problems of chronic crime and social inequities, Brazil has not yet turned the corner from being a developing nation and could easily slip into economic stagnation without the trade opportunities afforded by the GSP.

PUBLIC DIPLOMACY: EXCHANGE OPPORTUNITIES ABOUND

¶13. (U) The Consul General conducted numerous press interviews and participated in several photo ops for print and broadcast news outlets while in Parana. The trip received fairly extensive statewide press coverage, particularly from the perspective of U.S.-Parana business development.

¶14. (SBU) The CG visited the Inter Americano bi-national center in Curitiba with the CONGEN's Public Affairs Officer (PAO). Inter Americano is a relatively large bi-national center with five locations offering English classes, a United States-focused research library, and preparation courses for American college and graduate school exams. But the center suffered a dramatic decline in enrollment between 2000 and 2004. This decline in community interest was probably due largely to the same conditions that marked a worldwide decline in international student travel to the United States since 9/11; fear of travel and frustration with new rules governing visas for foreign students. But we believe the loss of

enrollment at Inter Americano might be also be attributed to inaction by its static, aging Board of Directors. With this visit we hoped to re-invigorate the center's programming by offering encouragement to the young and energetic staff and by focusing attention on innovative program areas that show promise. We note that enrollment has stabilized and even increased slightly since 2004, and several new programs are showing significant public interest, such as partnerships with local businesses and governmental agencies and internship opportunities coordinated by Inter American. Inter American also coordinates the applications from Parana State for the Embassy's very successful Youth Ambassadors Program, which sends 25 young Brazilians, mostly from rural or disadvantaged areas, to the United States on two-week cultural exchanges. The Embassy has received over 2000 applications for each cycle of the program, which are judged on a number of merit-based criteria. A significant number of qualified candidates were noted from Parana state, and three of these students were chosen to participate in different years. The CG met with these students at Inter Americano, as well with a teacher who participated in a similar exchange program, and discussed their experiences and plans for the future.

¶15. (U) The CG also met with the administrators of the Advanced Institute of Business Administration and Economics associated with the Getulio Vargas Foundation (ISAE/FGV). This prestigious institution provides executive MBA degrees and other business certificates largely to working students, most of whom are sponsored by their employers. ISAE/FGV has had exchange programs with U.S. business schools and continues to work closely with the Consulate, and its current curriculum features courses in ethics and corporate social responsibility.

ALMOST FORGOTTEN HEROES

¶16. (U) Brazil's contribution to the Allied effort in World War II

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is often misunderstood, or simply overlooked. In addition to providing raw materials and strategic air and naval bases in South America, Brazil sent 25,000 troops to Italy as the Brazilian Expeditionary Force (FEB), which was attached to the U.S. Fifth Army commanded by General Mark Clark. In the winter of 1944-45, the Brazilian division, known as the "Smoking Snakes" for their distinctive emblem, fought a series of brutal but ultimately successful battles to capture a ridge that came to be known as Monte Castello, and FEB forces helped push the Allied advance through Italy to the French border in the spring of 1945. But the FEB was quickly disbanded upon its return to Brazil, and over the next four decades the veterans that fought in Italy were all but forgotten; they were even denied health and pension benefits afforded to subsequent military retirees who never served in combat.

¶17. (SBU) But since 1946, FEB veterans from Parana have maintained the Expeditionary Museum in Curitiba. The CG met with a curator and a group of war veterans at the museum, who retraced the battles they fought alongside the U.S. 10th Mountain Division in the Italian Alps using wall-maps and dioramas. The veterans also showed a wide range of artifacts, armaments, uniforms, documents and photographs from the War, including period photos of themselves that hang on the walls of the museum. The museum is well-maintained in an attractive setting near the heart of Curitiba, and it houses a small but impressive array of authentic equipment including an aircraft, battle tank, and several artillery pieces. A curator said that American scholars sometimes conduct research using original documents from the museum's collection. The museum demonstrates a particularly strong historical tie between Brazil and the United States, one in which the two nations fought side by side against a common enemy for a common cause. The CG and PAO discussed with the veterans possible partnerships that could be developed with the museum via the Mission. One idea would be to help connect the museum to veterans groups in the U.S., particularly of the 10th Mountain Division.

RAINFOREST RESPITE

¶18. (U) Parana is a state of striking environmental beauty, from rolling farmland in the central and northeast regions of the state, to the near-vertical, rainforest mountain range that looms high over the southern coast and was referred to as "The Wall" by early European explorers who dreamt of finding a passage to the interior. While forests of the tall, prehistoric-looking Aruacaria fir trees have been all but cleared for farmland from much of inland Parana, part of the ancient Mata Atlantica rainforest has been preserved along the state's coastline. The CG toured a portion of the Mata Atlantica with Dr. Paulo de Tarso Pires, an environmental law professor at the Federal University of Parana, and the director of a rainforest conservation project run by the Parana State Department of the Environment. The Consulate's Public Diplomacy section has sponsored many exchange and speaker programs in association with Parana governmental, university and non-governmental environmental advocates. Tarso Pires himself is a past participant in the International Visitor's Program (IVP), and on this trip he introduced us to a number of budding young conservationists who are following his lead in developing sustainable biodiversity conservation programs.

COMMENT: CURITIBA CONTINUES TO IMPRESS

¶19. (SBU) Parana represents an important industrial and agricultural region, with state exports to the United States totaling almost \$1.5 billion and U.S. imports reaching \$470 million. Politically, party loyalties of voters give way to the cult of personality, as we met important state and local leaders from a number of political parties each apparently able to hold on to a loyal base by means of very different and specific public personas and personal accomplishments. The governor's port revitalization plan may boost the state's importance as a trading hub, but regardless of the port's efficiency, distribution capacity puts a

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natural limit on growth. Paranagua is linked to Curitiba and the rest of Brazil by a single rail line that slices through the steep and rugged mountains ringing the port, and which was an engineering marvel when built a century ago. The newer adjacent highway also follows a steep and curvy path through the mountains, and is plagued by frequent thick fog that envelopes the passes and makes truck traffic slow, difficult and sometimes dangerous even in the daytime.

But Curitiba continues to impress visitors and attract international business interest. Thus, if the state government does improve the image and utility of the Port of Paranagua, and the city government boosts Curitiba's draw as a center for modern industrial production, Parana may increase its market share of Brazil's import and export business and of its foreign direct investment and enhance its reputation even further as one of Brazil's most comfortable places to live. END COMMENT.

¶20. (U) This cable was coordinated/cleared by Embassy Brasilia.

MCMCULLEN